RISK & CRISIS MANAGEMENT

THE ROLE OF GOOD CORPORATE GOVERNANCE

CONTENT

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The risks faced by every business are unique. Also, each crisis faced by any business has very particular characteristics. Risk- and Crisis Management should be tailored to the specific circumstances of each case, but good Corporate Governance practices are essential to improve readiness and response to risks and crises.

When an unforeseen risk materialises or when a crisis hits, the quality of a company's Corporate Governance is tested. Sometimes it takes a crisis to shake the Board and executives out of complacency and get action on issues that have been ignored for too long. Companies that survive crises and learn from them can emerge stronger with more efficient products and organizations, and an improved reputation. This note explains the roles and responsibilities of Corporate Governance bodies in Risk Management and Crisis Management. It contains questions and tips for each to consider.

WHAT IS THE DIFFERENCE BETWEEN RISK-, CRISIS AND BUSINESS CONTINUITY MANAGEMENT?

RISK MANAGEMENT

Is strategic – it looks at the present and towards the future.

BUSINESS CONTINUITY MANAGEMENT

Is mainly operational and focuses on maintaining operations.

CRISIS MANAGEMENT

The focus is the response to the crisis. Risks that are not managed well, may result in a crisis. However, a crisis may also arise from unforeseeable risks.

WHAT ARE THE RESPONSIBILITIES OF THE DIFFERENT FUNCTIONS?

In summary:

01 INVESTORS

Investors are not responsible for Risk Management or Crisis Management; they monitor the quality of the oversight by the Board. In a crisis, investors can support investees by keeping calm and maintaining a long-term perspective.

02 THE BOARD

The Board sets the company's strategy and oversees Risk Management. In a crisis, the Board continues to have an oversight role. To best illustrate with an example, imagine that management is in a swamp fighting alligators. The Board should be on the bank pointing out the alligators that the Management cannot see, while at the same time keeping an eye on the horizon for a meteor that may be heading towards them.

03 MANAGEMENT

Management: should design and implement a Risk Management system.

04 NON-EXECUTIVE DIRECTORS

Non-executive directors can improve Board dynamics that are fundamental in the decision-making process around Risk- and Crisis Management.

05 COMMITTEE CHAIRS

Board and Committee Chairs can establish a collaborative environment, provide leadership and ensure proper flow of information.

06 AUDIT COMMITTEE

The Audit Committee should be aware of management's assumptions and predictions for the financial impact of Risks or a Crisis, challenge the assumptions and ensure proper communication to the external auditor. The Audit Committee may also carry responsibility for Risk, in which case the next bullet is relevant as well.

07 RISK COMMITTEE

The Risk Committee (if there is one): having a Risk Committee can strengthen the Board's capacity to oversee risk. The Risk Committee should identify, map and regulate the risks faced by the company and oversee the quality of Risk Management implemented by Management.

01 WHAT ARE THE ROLES AND RESPONSIBILITIES OF INVESTORS? [1]

Investors are not themselves responsible for risk oversight – this responsibility lies with the Board.

Investors should be informed and monitor the quality and effectiveness of risk oversight by Boards of investee companies.

In a crisis situation, investors can perform their stewardship obligations by maintaining an approach that promotes long-term investment horizons and sustainable value creation for individual companies and markets.

QUESTIONS FOR INVESTORS TO ASK IN RELATION TO RISK- AND CRISIS MANAGEMENT:

- Does the Board recognise its role and accountability to provide oversight to the company's Risk Management and Crisis Management?
- How is the Board structured to address Risk Management and Crisis Managment? Is there clarity on roles and responsibilities?
- How does the Board get information about risks facing the company and demonstrate that it has an adequate and up-to-date understanding of the risk faced by the organisation?
- Does the board have access to internal or external subject matter experts to support decision making?
- If a Risk Management committee exists how does the Board allocate responsibilities to it and how does this committee interact with Management and the Board as a whole?
- Scoping the problem: what are the key financial risks and pressures and how resilient is the company to confront negative economic outcomes?
- In a crisis situation: How is the Board addressing the crisis and its impact on employees, customers, supply chains and local communities?
- What key financial and strategic decisions must be made and in what time frame?
- How will the company balance the interests of shareholders, stakeholders and the overall sustainability of the company itself?
- What are the plans for business continuity?
- How are communications managed internally and externally?
- How will the company communicate the economic impacts and threats to the company's financial sustainability and business model?

02 WHAT ARE THE ROLES AND RESPONSIBILITIES OF THE CEO? [2]

The CEO and Management Team should design and implement a Risk Management system. They have the primary responsibility for responding to an unexpected crisis and implementing a Business Continuity Plan. The Board should hold the CEO accountable to develop a plan as part of a CEO's regular duties well before a crisis hits.

BOARD AND CEO INTERACTION DURING A CRISIS

The Board should monitor the CEO's handling of the crisis and offer help if necessary.

BOARD MEMBERS SHOULD BE CONCERNED ABOUT:

01 The absence of a business continuity plan
02 The plan failing to work
03 Underestimating the scope or severity of the problem
04 Management not reacting decisively and effectively
05 Management's inclination to provide 'spin'
06 A CEO who is out of his or her depth
07 A CEO who is defensive or not communicating with the Board
08 A CEO who is unable or unwilling to seek guidance and advice

After assessing the CEO's response to the crisis, the Board Members can select the appropriate level of involvement. This might include one or more of the following options:

01 Let the CEO handle the crisis, reporting to the board only if the situation gets worse
02 Let the CEO handle the crisis and provide regular progress reports
03 Designate one or more specific Board Member who have the relevant experience and expertise to coach and work with the CEO on managing the crisis
04 Bring in an outside expert to coach and work with the CEO on managing the crisis
05 Appoint someone other than the CEO to manage the crisis
06 If the crisis is severe, the Board may decide to appoint the best qualified and available Board Member to coordinate the Board's crisis-related activities and consider establishing a Board Crisis Committee.

03 WHAT ARE THE ROLES AND RESPONSIBILITIES OF NON -EXECUTIVE DIRECTORS? [3]

Boardroom dynamics are fundamental in the decision-making process around strategy, Risk Management and Crisis Management and Non-Executive Directors can play an important role in improving and challenging Boardroom dynamics.

Non-Executive Board Members should collaborate with Executive Directors and Management to determine which information the Non-Executive Board Members receive on risk matters – and how frequently. This can also be done through the Non-Executive Chairperson if there is one, or through one of the Board Committees.

Non-executive Board Members should have the rights and capacity to obtain information from other sources and advisors, including those outside the company. Clarity in decision making structures and a disciplined approach to risk taking should not preclude Boards from actively gathering additional information from any member of Executive Management.

04 WHAT ARE THE ROLES AND RESPONSIBILITIES OF THE BOARD CHAIR AND COMMITTEE CHAIRS?

Strong, effective Board leadership from a Chairperson and leadership from Chairpersons of Board Committees is an essential element of good Corporate Governance. The Board Chairperson in particular must take the initiative to establish a collaborative environment and must manage Board dynamics, both inside and outside Board meetings. A Non-executive Chairperson also needs to be capable of providing guidance to the CEO on engineering a course correction when a crisis is underway, and—should circumstances require—of stepping in as the organization's voice if the executive leadership is compromised.

Questions to ask in relation to persons having a leadership role in the Board:

01 Is the leader maintaining focus; encouraging open discussions; and also managing the Board dynamics outside the room—identifying where Directors have concerns or questions?

02 Is he or she taking into account the maturity of the Board as a team?"

IT SHOULD BE CLEARLY WRITTEN DOWN AND COMMUNICATED:

01 what the expectations and responsibilities for key leadership roles are,

02 what the criteria are for selecting and evaluating the persons who fill those leadership roles; and

03 the criteria and process for the evaluation of the persons fulfilling those roles.

05 WHAT ARE THE ROLES AND RESPONSIBILITIES OF THE BOARD?

RISK MANAGEMENT: [4]

Boards are responsible for approving corporate strategy and overseeing Enterprise Risk Management, including risk appetite. The Board should hold Management accountable for designing and implementing a Risk Management System. It is the responsibility of all Board Members to exercise independent and active oversight. The independent judgement of the Board Member should be supported by a deep understanding of the company, its strategy, and its industry.

Boards should lead by example and foster an effective and demanding risk culture in the boardroom and the broader company. Boards should specify their expectations of a risk culture for the enterprise and directly influence the risk profile of the company. These should be connected to an appropriate Risk Management methodology based on an established risk management process. See below under “Risk Committee” for more on the Board responsibility in Risk Management.

CRISIS MANAGEMENT: [5]

As a crisis situation evolves, Board Members should stay up to date on the strategic risks that the crisis poses to the company and how Management is responding to these risks. In times of crisis, the job of Board Members is to make sure the CEO responds promptly, decisively and effectively. This often means staying calm and letting the CEO and **Management Team** manage the crisis. But letting the CEO manage does not mean that the Board ignores the crisis. The Board should ensure that sufficient resources are devoted to the immediate needs of the organization while maintaining a focus on long-term strategic goals. Short-term, tactical decision making should be balanced with the long-term goals of the organization.

Boardmembers must find out what’s going on and satisfy themselves that the CEO has things under control. If not, it is their duty to make sure that the crisis is properly addressed. The Board may need a process to monitor, on an ongoing basis, the response by the CEO and management team to the crisis. It may be appropriate to direct one or more committees to oversee crisis-related transactions.

IN A CRISIS, THE BOARD SHOULD GUARD AGAINST:

01 Making the crisis worse by jumping to conclusions and overreacting

02 Balancing the Board's need-to-know and oversight responsibilities with Management's responsibility for dealing promptly with many urgent issues

03 Talking to the media or anyone else about the crisis— unless they have been designated and briefed to do so

04 Letting the Board polarize into a disunited group

QUESTIONS FOR THE BOARD DURING A CRISIS: [6]

01 How does the Board get information during a crisis?

02 How does the Board determine its role in a crisis?

03 How does the organization determine how and what it will communicate with stakeholders following a crisis?

04 Does the Board consider information from investors that may avert a crisis?

05 What are the plans for business continuity following a crisis?

06 How effective are Management and the Board in identifying early warning signals?

BOARD TASKS IN CRISIS MANAGEMENT:

01 In some cases the Board has a direct role in responding to a sudden crisis. This may include approval of emergency financing or other rescue missions.

02 The Board should be concerned about the capacity of individual Board Members to devote considerably more time to the organization’s activities in a time of crisis. This particularly affects Non-Executive Chairs who may find they have to devote most of their time to the organization during the crisis.

06 WHAT ARE THE ROLES AND RESPONSIBILITIES OF THE RISK COMMITTEE? [7]

The responsibility for risk oversight rests with the full Board, even if a Risk Committee or other specialised committees are established. Delegation of responsibility to specialised committees is an important tool in strengthening the Board's capacity in overseeing risk. If the Board allocates responsibility for risk oversight to one or more committees, it should describe the terms of reference for these bodies in its corporate governance principles and committee charters and ensure that members have sufficient skills in strategy, operations and understanding of the company. The Board should determine how the work of its committees is to be coordinated and how it is integrated in the Board's discussions on strategy. [8]

QUESTIONS TO ASK ABOUT RISK GOVERNANCE:

01 How does the Board allocate risk oversight responsibilities between its committees?

02 How does the Board ensure effective communication between its committees with respect to risk?

03 Can the company clearly define the relationship between the Risk, Audit, and Remuneration Committees?

04 How does the Board avoid committees working in isolation of each other?

It is good **Corporate Governance Practice** to conduct Periodic Risk assessments. A Periodic Risk Assessment is a forward-looking analysis of various scenarios that may adversely impact the company. It helps a Board and Management to identify (emerging) risks, threats and opportunities.

A key objective of a **Periodic Risk Assessment** is to make sure that the Board is aware of what they don't know. Running scenarios to create intellectual readiness for unexpected situations. Scenarios must be updated and customized in the light of the most material risks to a business at any given time.

THE PROCESS LOOKS LIKE THIS:

Risk identification	Risk assessment	Embedding
Emerging risks		Strategic risk response (accept, reduce, vulnerability, transfer)
Risk taxonomy (lessons learned from other Markets)	What happens if...?	Creating awareness
Incidents	How vulnerable are we...?	Training
Internal Audit findings	What level of risk is acceptable?	Revise/implement controls
External audit findings		

Audit trail

Feedback loop

RISK HEAT MAPPING:

One part of the Periodic Risk Assessment, is a risk mapping and analysis exercise to ensure that Management is both thinking about the risks the company is facing and taking appropriate and proportional measures to address such risks. While this is usually an annual exercise, the Board (or its designated committee) may undertake an interim review of the company's risks with a view toward potential impacts as new risks arise. An example is shown below:

RISK RATING = LIKELIHOOD X SEVERITY

SEVERITY						
Catastrophic	5	5	10	15	20	25
Significant	4	4	8	12	16	20
Moderate	3	3	6	9	12	15
Low	2	2	4	6	8	10
Negligible	1	1	2	3	4	5
		1 Improbable	2 Remote	3 Occasional	4 Probable	5 Frequent
		LIKELIHOOD				

Catastrophic	STOP
Unacceptable	URGENT ACTION
Undesirable	ACTION
Acceptable	MONITOR
Desirable	NO ACTION

BUSINESS CONTINUITY PLANS:

In conjunction with the heat mapping exercise, many companies have in place business interruption or contingency plans for when production or other business operations are unexpectedly disrupted. The Risk Committee should review the viability of these plans with Management and ensure that they are effective from short to long term and everywhere in between for various contingencies.

If a company lacks an adequate plan during a crisis, it is not too late to develop and implement a new one or make necessary adjustments to an existing plan. These plans will likely need to be regularly reviewed by the Board and Management and adjusted as the crisis evolves.

KEY ISSUES TO CONSIDER IN A BUSINESS CONTINUITY PLAN: [9]

Employee/Talent Disruption. What are minimum staffing levels? Can employees work remotely?

Supply Chain and Production Disruption. Review with management the risks that a disruption in the supply chain will cause interruptions in operations and how to protect against such risks, including the availability of alternate sources of supply.

Financial Impact and Liquidity: review the potential financial impact. Understand the assumptions underlying Management's assessment and discuss the likely outcome if those assumptions prove incorrect. Consider the need to seek additional financing or amend the terms of existing debt arrangements.

Key Person Risks and Emergency Succession Plans that identify persons that can step into the role of interim CEO and other key persons.

Incentives: should incentive plan goals be adjusted?

Board/Governance Continuity.

ELEMENTS OF A WELL-DESIGNED CRISIS MANAGEMENT PLAN:

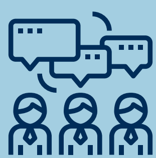
A well-designed Crisis-Management plan will assist the company to react appropriately, without either under- or over-reacting. Elements of an effective crisis management plan include: [10]

1. **It Engages a cross functional team** for planning and execution: Crisis response teams typically include key individuals from Management, public relations, human resources, legal and finance. Identify these individuals in advance and begin meeting so that they are prepared to respond quickly when a crisis develops. The team should be in regular contact with the board (or a designated Board Member or committee).
2. **Quick and Decisive Deployment.** The plan should include crisis response procedures, communications templates, checklists and manuals that can be readily adapted to a variety of situations for effective, time-critical and agile deployment. The crisis response team should be familiar with the elements of the plan and be ready to implement it at a moment's notice.
3. **Contingency Plans.** A crisis is inherently unpredictable. However, the company should endeavour to anticipate all potential crises to which it is vulnerable and develop contingency plans to deal with those crises to minimize on-the-fly decision-making.
4. Identifies **crisis management leader(s)**
5. **Guidance** on crisis communication strategies, including use of social media Clear communication and planning within the crisis response team will allow the company to communicate internally and externally in a calm and thoughtful manner, which will help build confidence during a volatile situation.
6. Delineates **roles and responsibilities**, including the CEO's and board's roles
7. Defines the **crisis escalation process**
8. Outlines expected **crisis management activities**
9. Defines disaster **recovery priorities**
10. Identifies **outside advisors** to retain as needed
11. Requires **regular testing** of the plan

07 THE AUDIT COMMITTEE

In some companies, the functions of the Risk Committee and the Audit Committee are combined, in which case the Audit Committee would have the added responsibilities described above in relation to the Risk Committee. The Audit Committee is responsible for oversight of the company's audit and financial controls and procedures, liquidity position, and public reporting and disclosure obligations associated with financial reporting. However, all directors should request to be continually updated and review company plans to ensure they are implemented effectively.

If a risk or crisis materializes, it may be necessary to update plans or forecasts shared with investors and indicate how the crisis may impact their business. The Audit Committee should be aware of Management's assumptions and predictions for the financial impact of a crisis. The Audit Committee should understand and stay abreast of the potential impact the crisis could have on the company's liquidity and its capital resource needs. Additionally, depending on the size or extent of the crisis, the Audit Committee should discuss with Management potential goodwill impairments. [11]



***The Audit Committee** is responsible for oversight of the company's audit and financial controls and procedures, liquidity position, and public reporting and disclosure obligations associated with financial reporting.*

08 HOW TO LEARN FROM A CRISIS? [12]

Even while the crisis is unfolding, responses and impacts should be documented to be later reviewed and lessons extracted. A crisis tends to expose weaknesses in Corporate Governance and it can be a useful moment to identify opportunities for improvement.

When a crisis is under control, it is normal to want to move on with usual business. However, a well-written crisis plan will include the requirement for Management and the Board to review and reflect on how the crisis was managed. A review will be most valuable if it leads to an action plan that the Board implements and follows up. Points to consider in a post-crisis review are:

01 Did the Board and Management stay calm, get accurate information and assess the situation?

02 Was the Board's involvement timely and appropriate?

03 Did the Board recognize and reconcile dissenting views expressed by all Board Members?

04 Did the Board and Management stay on top of the situation?

05 Was the Board helpful to the CEO?

06 Was the CEO helpful to the Board?

07 Did Management conduct a thorough post-crisis review and report on it to the Board?

08 Did the crisis reveal any weaknesses in strategic planning and Risk Management processes?

09 How might the Board Members apply what they learned to improve the way the board functions and relates to the CEO?

10 How can the company turn this crisis into an opportunity?

09 GOOD CORPORATE GOVERNANCE AND INFORMATION FLOWS [13]

Once roles and responsibilities have been assigned, it is important to determine reasonable expectations and protocols about information flows and sources of information required by the Board. Hardwiring information flows in advance of a crisis will mean that nobody questions the rhythm, frequency, or flow of information during a crisis.

Board Members should also make clear what information they expect to get once a crisis hits—and to keep their expectations reasonable. A 15-minute phone call where the CEO or CFO updates the Board on what they know at that point in time, what they are doing about it and what they need from the Board could be more effective than an extensive slide deck or written report.

It is good practice (also outside of crisis situations) to have information flowing from multiple sources to the Board so that the CEO does not become the sole source and filter of information. The Board should for example also receive information directly from the Internal Auditor, the CFO and the CRO.

The Chair of Committees should maintain good relationships with key executives – for example the Chair of the Audit Committee should have a good working relationship with the Internal Auditor and the CFO. Good and transparent communication is the basis of good dynamics between the Board and Management. If good communication is established when times are good, it will support the functioning of the Board and Management in a time of crisis.

The Board should also receive information from neutral third parties and experts. Including third-party perspectives from objective independent advisers as part of the information flow will result in better decisions by the Board.

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